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Review of Yoshio Suzuki's "Difficulties and Challenges, Japan's Post-War History of Monetary Policy and Economic Trends"

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C O L U M B I A U N I V E R S I T Y I N T H E C I T Y O F N E W Y O R K

Review of Yoshio Suzuki's Difficulties and Challenges, Japan's Post-War History of Monetary Policy and Economic Trends

By Hugh Patrick

Abstract

This is a book review edited by Hugh Patrick of a significant book in Japanese on postwar monetary policy by Dr. Yoshio Suzuki, who for many years played a leading intellectual role at the Bank of Japan. The review is based on a substantive summary provided by Dr. Suzuki. The book discusses the post-war economic performance of Japan in the context of monetary policy and its implementation. For the Bank of Japan, these 70 years are indeed a repetitive succession of difficulties and challenges, and of resulting successes and failures. The book has three sections: "Japanese Economy and Monetary Policy in the Developing Period"; "Setbacks of the Japanese Economy"; and "New Challenges of Monetary Policy."

Exclusive CJEB Occasional Paper

This is to draw your attention to a significant book in Japanese on postwar monetary policy by Dr. Yoshio Suzuki, who for many years played a leading intellectual role at the Bank of Japan. The attached book review was slightly edited by Hugh Patrick based on a substantive summary provided by Dr. Suzuki. As such this is an exceptional Occasional Paper, since CJEB does not engage in book reviews.

This book, published in Japanese by the publishing company Iwanami Shoten, discusses the post-war economic performance of Japan in the context of monetary policy and its implementation. For the Bank of Japan, these 70 years are indeed a repetitive succession of difficulties and challenges, and of resulting successes and failures. The author, a Ph.D in Economics at Tokyo University, was long involved in policy debates and decisions for 34 years as BOJ economist, including Chief Economist and Executive Director, and then as a Member of the House of Representatives. The description, analysis, and policy proposal in the book are vivid, sharp, and fair. It is no surprise that the book was selected by 15 economists, in a process sponsored by Nihon Keizai Shimbun, as one of “The Best 10 Economic Publications in 2016.”

The book consists of 3 sections:

I. “Japanese Economy and Monetary Policy in the Developing Period” (1945~1984) is a comprehensive analysis of the dramatic transformation of the Japanese economy in the first forty postwar years. It discusses difficulties in the Occupation reconstruction period in which two contradictory policy purposes were pursued at the same time, namely stimulating investments to restore supply capacity and depressing hyper-inflation more than 300 percent under a fixed exchange rate. The dilemma was unexpectedly solved by an enormous increase in external demand generated by the Korean War in 1950-51, and the prewar level of economic performance was achieved by 1953.

Then, the catch-up period of extraordinary rapid growth began in a good international environment of free trade, capital, and technology transfer under the Bretton Woods system. Japan also benefited from depreciating trends in the effective real exchange rate of the yen under the fixed nominal exchange rate system, due to the inflation rate differential of tradeable goods between Japan and other nations. Japan had to implement a “stop and go” policy to sustain discipline in the balance of payments, with the result of price stability, while most industrialized nations, particularly the United States, had had creeping

inflation without a balance of payments constraint.

This eventually resulted in the collapse of the Bretton Woods system, the floating of the yen exchange rate, and two oil crises. Japan handled these international challenges, and became an advanced industrial market economy with the best growth performance among the G-5. The book describes these events, benefiting from the author's direct experience in the formulation and implementation of monetary policy. This section also treats Japan's process of deregulation of interest rates and the financial system, and the resulting changes in the transmission mechanism of monetary policy.

II. "Setbacks of the Japanese Economy" deals with policy failures which resulted in "the loss of 15 years" (1988~2013). The author describes this period as beginning with the binding of Japanese monetary policy by participating in the so-called "International Policy Coordination" which caused asset bubbles as the consequence of an internationally-compelled easy money policy. Japan finally started to raise interest rates in March 1989 as the dollar seemed to bottom. Unfortunately, this policy change was clearly too late, because 28 months had already passed since the beginning of the business expansion and the prices of goods, stocks, houses and land had already soared. The bursting of asset bubbles caused by the radical tight money policy in 1989-90, together with delayed fiscal support, caused a long and deep recession until 1994 when the economy started to rise with the recovery of business investments and private consumption until 1996. Then the tight budgets of fiscal 1997, which cut the 13 trillion yen deficit, killed the private economy. It was a too-hasty fiscal consolidation which caused a financial crisis and the resulting long stagnation. The process is stated in detail based on the author's experiences as BOJ Executive Director and a Member of the House of Representatives.

III. "New Challenges of Monetary Policy" describes the process of the first challenge by any country to pursue a non-traditional monetary policy against the liquidity trap, when even a zero interest rate policy could not stimulate the economy. Although the inflation rate became positive in 2006-2008, the worldwide recession triggered by financial turmoil in the United States hit Japan and caused deflation again. The Bank of Japan pursued QQE, followed by a negative interest rate policy to counter the new challenges of revived deflation. The book analyzes the effects and limits of those policies and proposes the author's own policy.

Now that full employment is almost achieved and the inflation rate is becoming positive, which are the ultimate goals of monetary policy, the policy priority is to maintain this situation. The inflation target of 2%, which is just an intermediate target, should be ignored,

and the exit policy from QQE and minus interest policy should be seriously pursued. Critical comments on Prime Minister Abe's policy, "Abenomics," are also stated here. The author's argument to support fiscal expansion is in line with the "Fiscal Theory of the Price Level."

The author also noted the fact that Japan's real GDP growth per worker is the highest among the G-7 countries. In order to raise the potential growth rate and the natural rate of interest to recover the effectiveness of monetary policy, he proposes a positive immigration policy to increase Japan's working population.

Summarizing this book is not easy because it contains so many interesting facts, analyses, and policies. Indeed, this is a valuable book for deep researchers of the Japanese economy.